



**INDONESIA
DEVELOPMENT
FORUM 2019**
INSPIRE • IMAGINE • INNOVATE • INITIATE



**KNOWLEDGE
SECTOR INITIATIVE**



Australian Government

Future Social Protection for the Working Age Group Through Employment Insurance and Pension/Retirement Plan

The National Team for the Acceleration of Poverty Reduction (TNP2K)
Office of the Vice President of the Republic of Indonesia



OFFICE OF THE VICE PRESIDENT OF
THE REPUBLIC OF INDONESIA



TNP2K
THE NATIONAL TEAM FOR
THE ACCELERATION OF POVERTY REDUCTION

Future Social Protection for the Working Age Group Through Employment Insurance and Pension/Retirement Plan

The National Team for the Acceleration of Poverty Reduction (TNP2K)
Office of the Vice President of the Republic of Indonesia

1

Economic, Social and Demographic Context

Indonesia Population (based on Age Group)

In 2018, more than 150 millions (57 per cent of total population) are the working age/productive age group of 19-59 years old

Table 1. Indonesia Population based on Age Group in 2018

Age Group	All Population			Bottom 40%		
	Male	Female	Total	Male	Female	Total
0-6 Years	17.036.553	16.283.804	33.320.357	7.869.614	7.638.714	15.508.328
7-18 Years	28.523.0005	27.185.200	55.708.205	12.027.442	12.027.442	24.054.884
19-59 Years	75.531.974	75.172.671	150.704.645	26.977.797	27.588.032	54.565.829
60+ Years	11.651.760	12.841.924	24.293.684	4.994.589	5.893.899	10.888.488
Total	132.743.292	131.483.599	264.226.891	51.869.442	53.148.087	105.017.529

Source: Susenas 2018 calculated by TNP2K 2019

INDONESIA HAS THE OPPORTUNITY TO BENEFIT FROM THE DEMOGRAPHIC DIVIDEND.

Sufficient investment to strengthen its labour
force capacity is highly needed

Indonesia labour force lacks education, training
skills, and a significant gender disparity

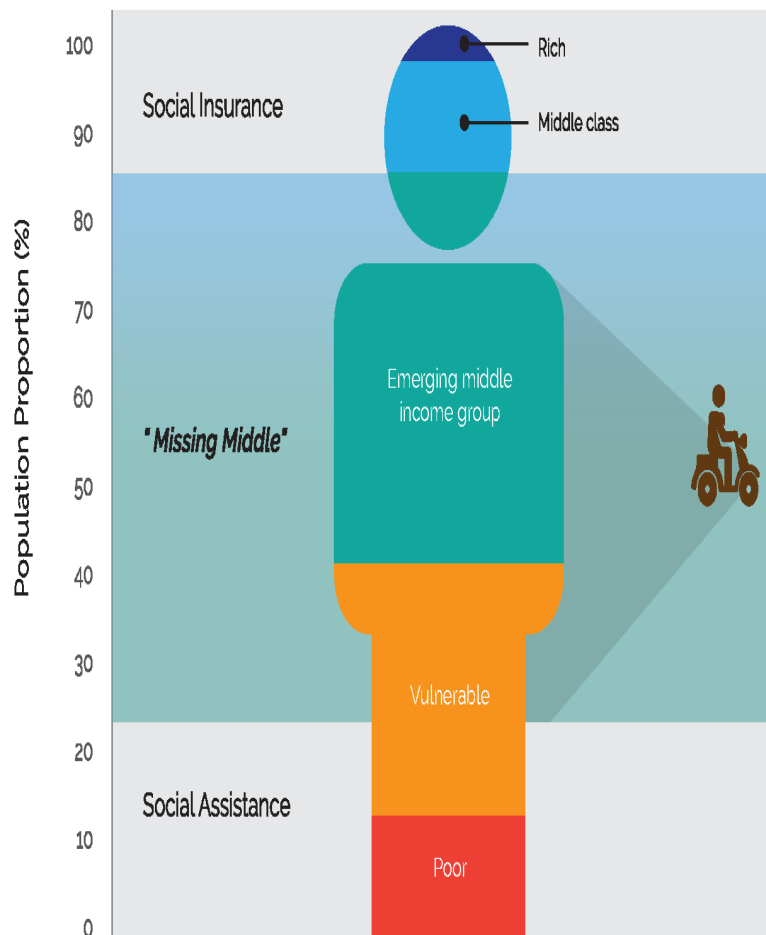
Indonesia's workforce is relatively under-educated → nearly 50%
obtained only elementary education and only 6.3% have a university
degree or equivalent (*Sakernas 2016*)

Around 40% of young people (in 2012) were out of education,
training or employment. Those who work with limited schooling, tend
to end up in informal jobs with pay below the minimum wage
(World Bank, 2014)

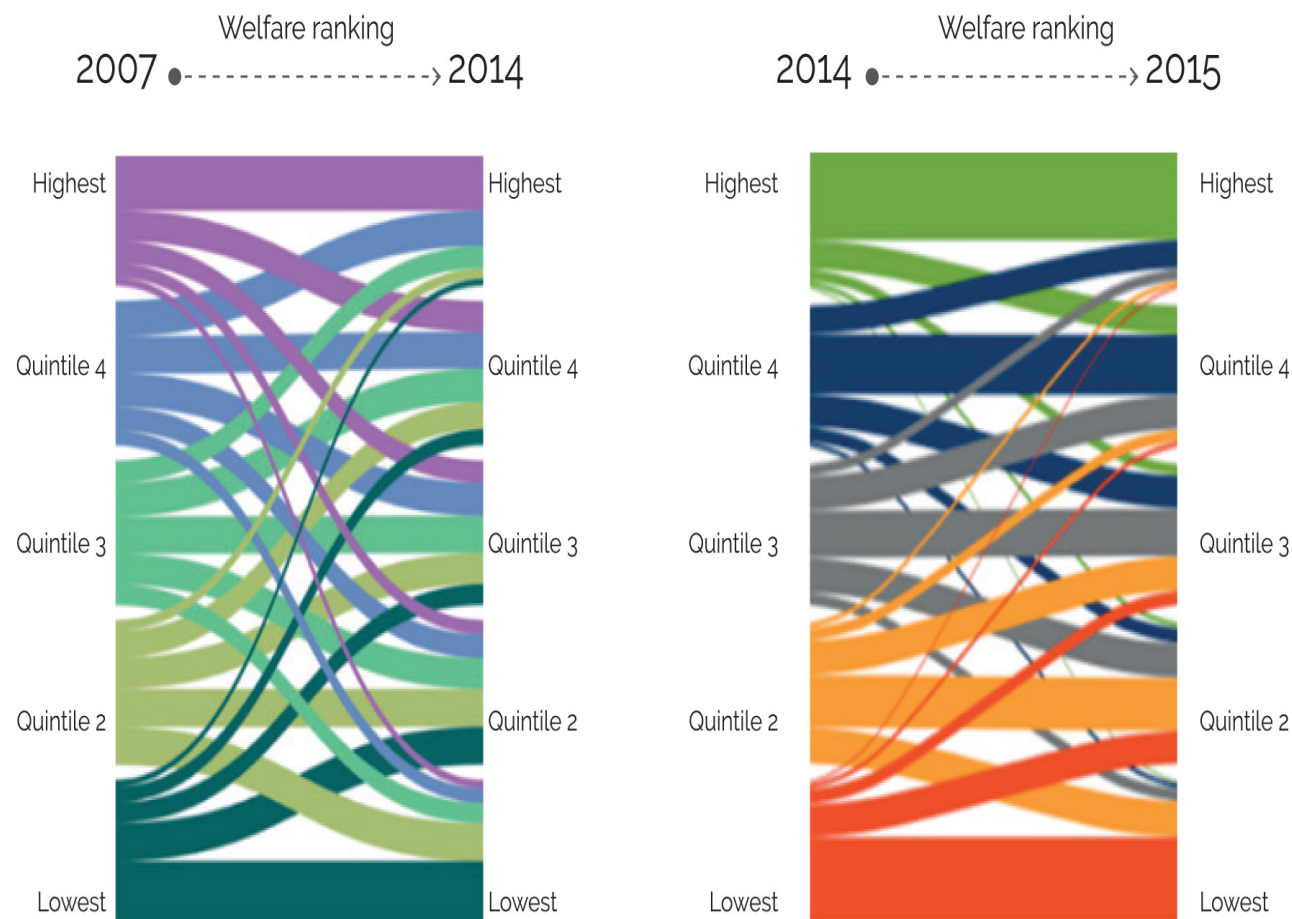
Gender disparities are significant. The proportion of young women
who are not employed, in education or training (30%) are twice that of
their male counterparts (15%) (*Schaner and Das, 2016*)



Social protection for the “missing middle” is limited while their socioeconomic status are also very dynamic



Source: Designed by TNP2K-Mahkota (2017)



Source: IFLS (2007-2014) and Susenas (2014-2015) calculated by TNP2K 2018

Why Social Protection for the Working Age Group is important?

1. Every citizen's rights

2. Investment in a country's
"human development"

**Comprehensive
Social Protection**

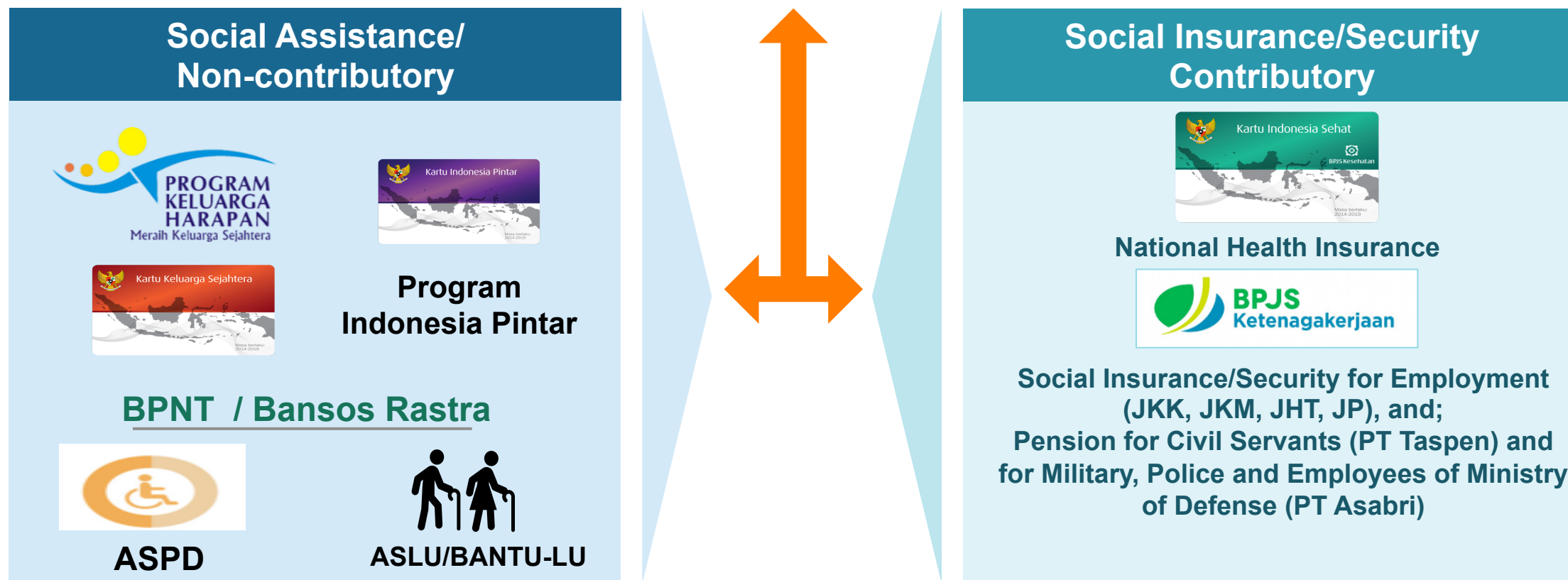
4. Protect from various lifecycle risks and support in investing more for the future (for their old-age) and for the children

3. Raise labour productivity, contribute to economic growths, and enhance social stability

2

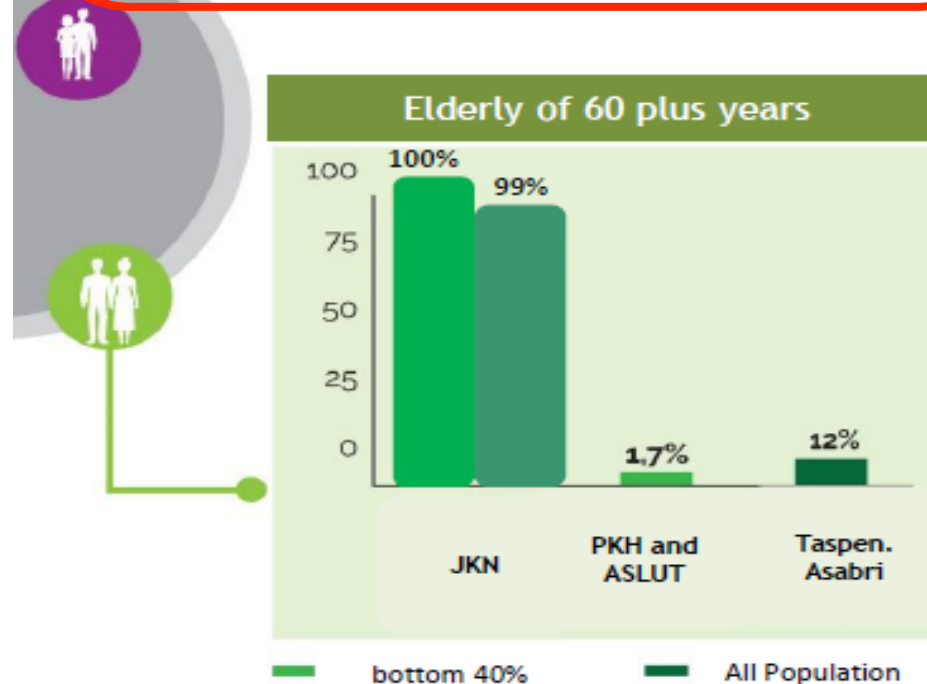
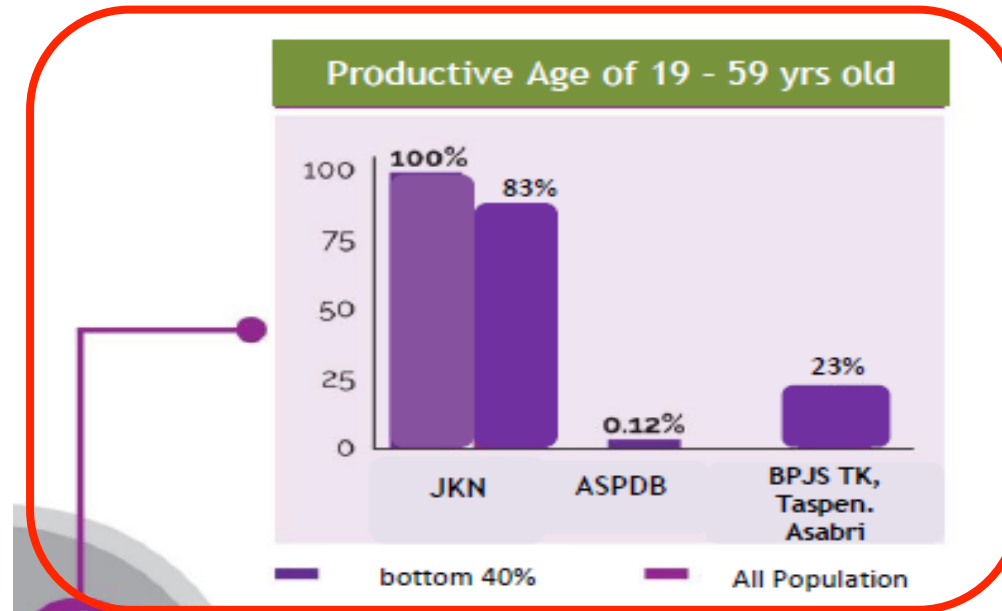
Existing Social Protection for the Working Age Group

Existing Social Protection in Indonesia

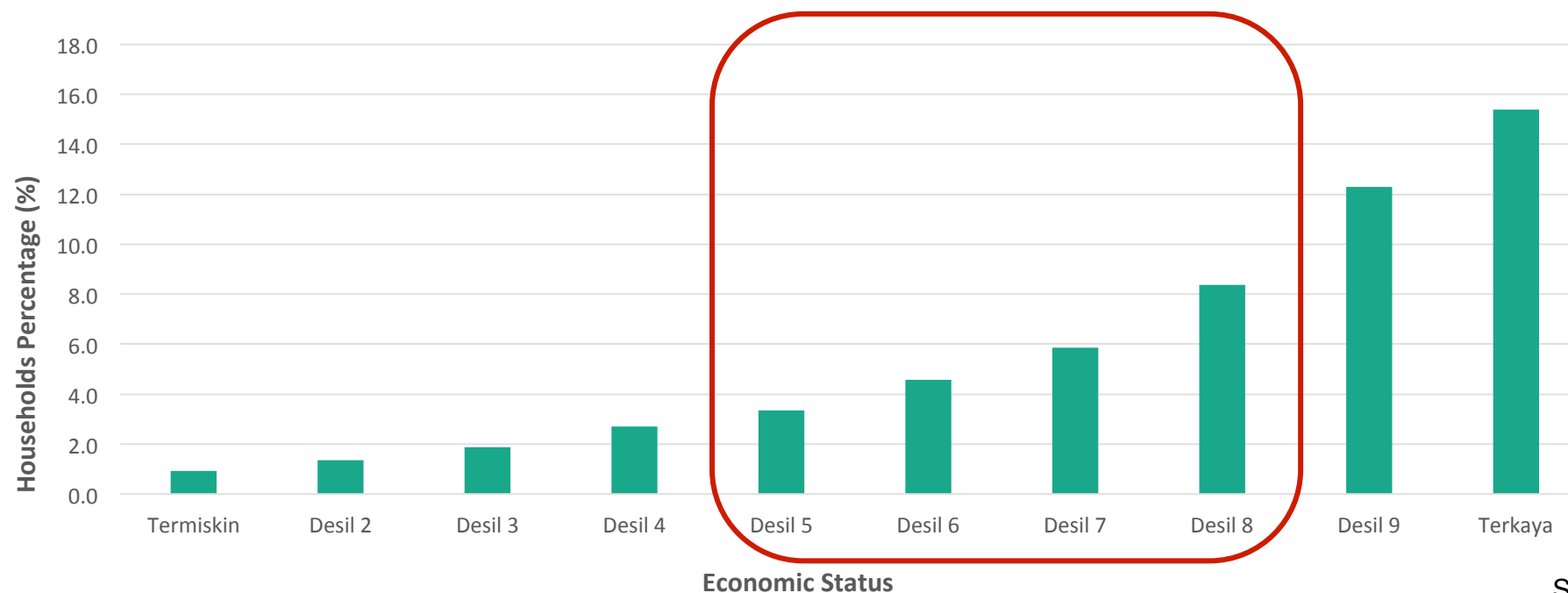


Coverage of Social Protection Programs across the Lifecycle (2018)

- More than 80 percent of 19-59 years old population have access to the National Health Insurance (JKN/Kartu Indonesia Sehat program)
- Approximately 30 millions of Indonesian's workers (most work at the formal sectors/wage-recipients/ PPU) have access to the Employment Insurance (through JKK, JKM, JHT and JP).
- However, only less than 3 millions of non-wage recipients/BPU workers have voluntarily participated in the employment insurance scheme



Households with Pension based on Economic Status

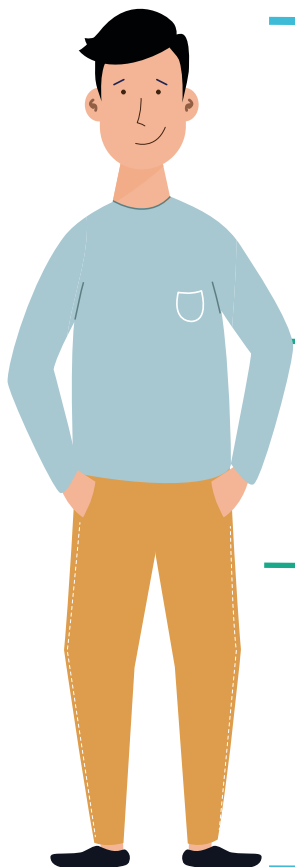


Source: Susenas 2018

Figure 1. Percentage of household with min. of 1 member in the households with pension coverage

- ❑ Ideally, the whole population needs saving regardless of their economic status.
- ❑ However, households with pension can be found more in those who come from the 8th and 9th decile of the socioeconomic status → It implies that having pension is expensive. Higher percentage of pension owned by those from the middle-class group.

How Much Saving One Must Have To Avoid Old Age Poverty?



A 25-year-old would like to have a pension/retirement of IDR842.000 per month at the time of his/her pension (around 10 per cent of the national minimum wage average).

To accomplish this target, he/she will need to have a saving amount of IDR113.760.596 by the age of 60 years.

Thus, for the rest of his/her productive age period (around 34-35 years), he/she will need to save of IDR503,703 per month.



The old age saving illustration of IDR503.793 – is almost equal to the average expenditure (per capita per month) of someone at 28 percentile.

If we assume individuals expenditures from bottom 40% consume around 60% of their income, this means there won't be any individuals from the bottom 40% able to save for their old/retirement age

Decile	PPK Nominal 2018 (in IDR)
Decile 1	313.954
Decile 2	442.745
Decile 3	543.551
Decile 4	644.172
Decile 5	765.448
Decile 6	911.986
Decile 7	1.095.956

Which 25-year-old individual can save for their old age of **IDR503,793 per month** for their retirement?

Challenges to access Social Protection through **Contributory Scheme (Employment Insurance)**

- **Regulatory barriers (Perpres No. 109/2013 and Permenaker No. 1/2016*) → to join JHT scheme, it is mandatory for both wage-recipient workers/PPU and non-wage recipient workers/BPU to join JKM and JKK as pre-conditions; In addition to that, BPU workers are unable to contribute to the pension scheme (JP) yet.****
- **While all programs are important to protect against various risks, JHT and JP are particularly crucial to enable the working age population to save for their pension/retirement, more importantly for the non-wage recipient workers/BPU.**

* Perpres No 109/2013 on “*Penahapan Kepesertaan BPJSTK/BPJS TK Membership Staging*”, and Permenaker No. 1/2016 on “*Guidelines to the Implementation of JKK, JKM, JHT for BPU/Tata Cara Penyelenggaraan Program JKK, JKM, dan JHT untuk BPU*”.

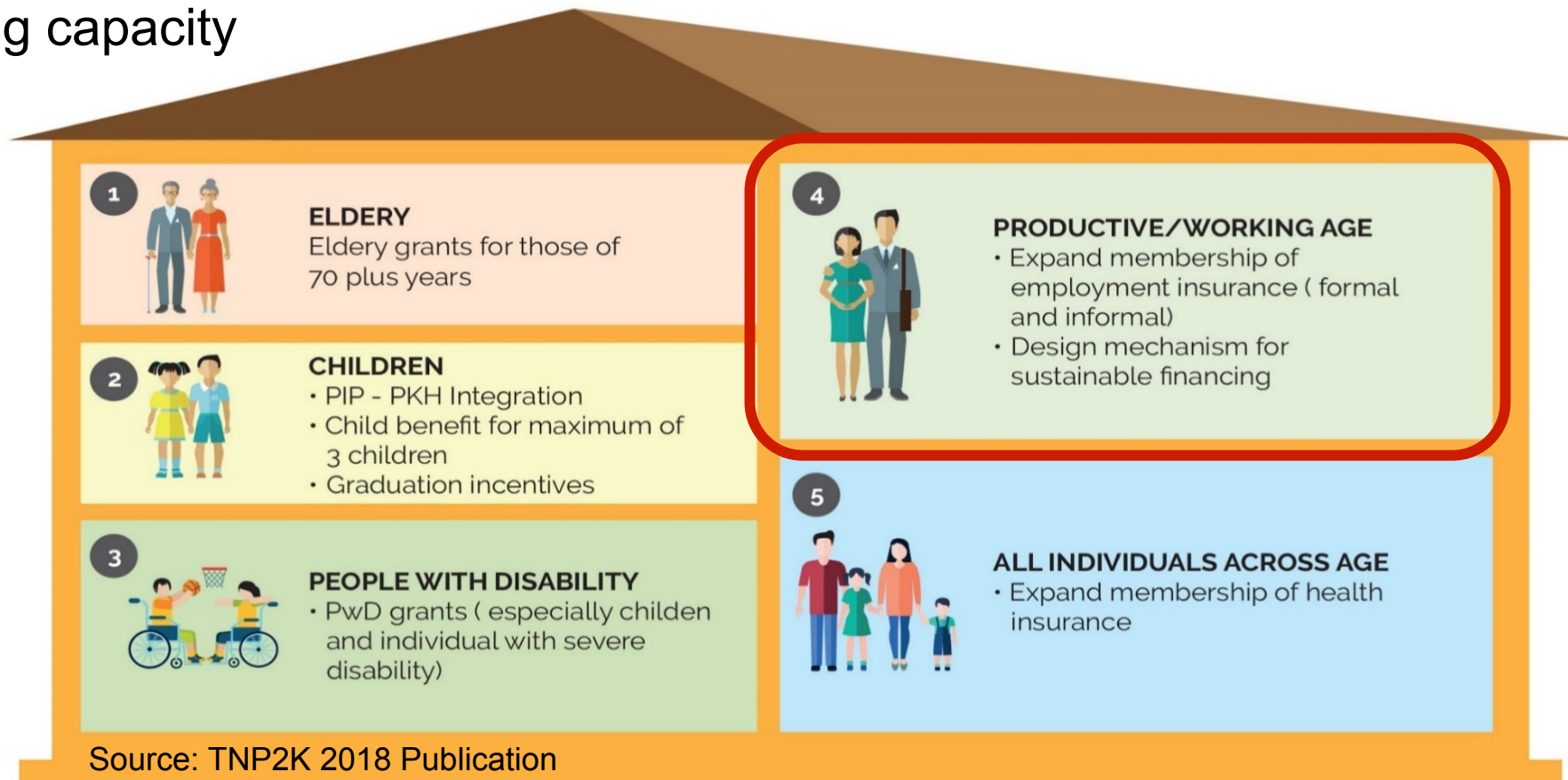
** **Bappenas currently is developing *Peta Jalan Reformasi SJSN 2020 – 2024 (2020 – 2024 SJSN Reform Road-Map)* where it would include for a proposal to provide opportunity for Non-Wage Recipient Workers (BPU) to enrol in the Pension/*Jaminan Pensiun* scheme.**

3

Employment Insurance and Pension/ Retirement Saving Proposals

Social Protection Proposal For the Working Age Group

1. Expanding membership of employment insurance (formal and informal), for wage-recipient workers (PPU) and non-wage recipient workers (BPU)
2. Public pension/retirement saving for the working/productive age group with no saving capacity



Social Protection Recommendation For the Working Age Group

1. **Revise existing regulations (Perpres 109 of 2013 and Permenaker No. 1 of 2016)**, allowing BPU to flexibly join any Social Security Agency for Employment program that best suits their needs and priorities, enabling them to actively save for old-age retirement.
2. **Design alternative mechanism for sustainable financing** for either employment insurance programs or pension/retirement saving, for instance:
 - Introduce incentive mechanism “**Matching Defined Contributions/MDCs**” into the JHT and JP to encourage more membership from the non-wage earners (BPU) with savings capacity;
 - Introduce **a public pension/retirement saving program especially for working age poor with no saving capacities**. For those with saving capacity, they need to start saving or investing as early as they can.
3. **Improve and strengthen employment insurance socialization as well as stronger marketing, registration and collection services** → particularly in rural areas where most informal workers reside yet have little knowledge of the employment insurance benefit and incentives existed in the schemes

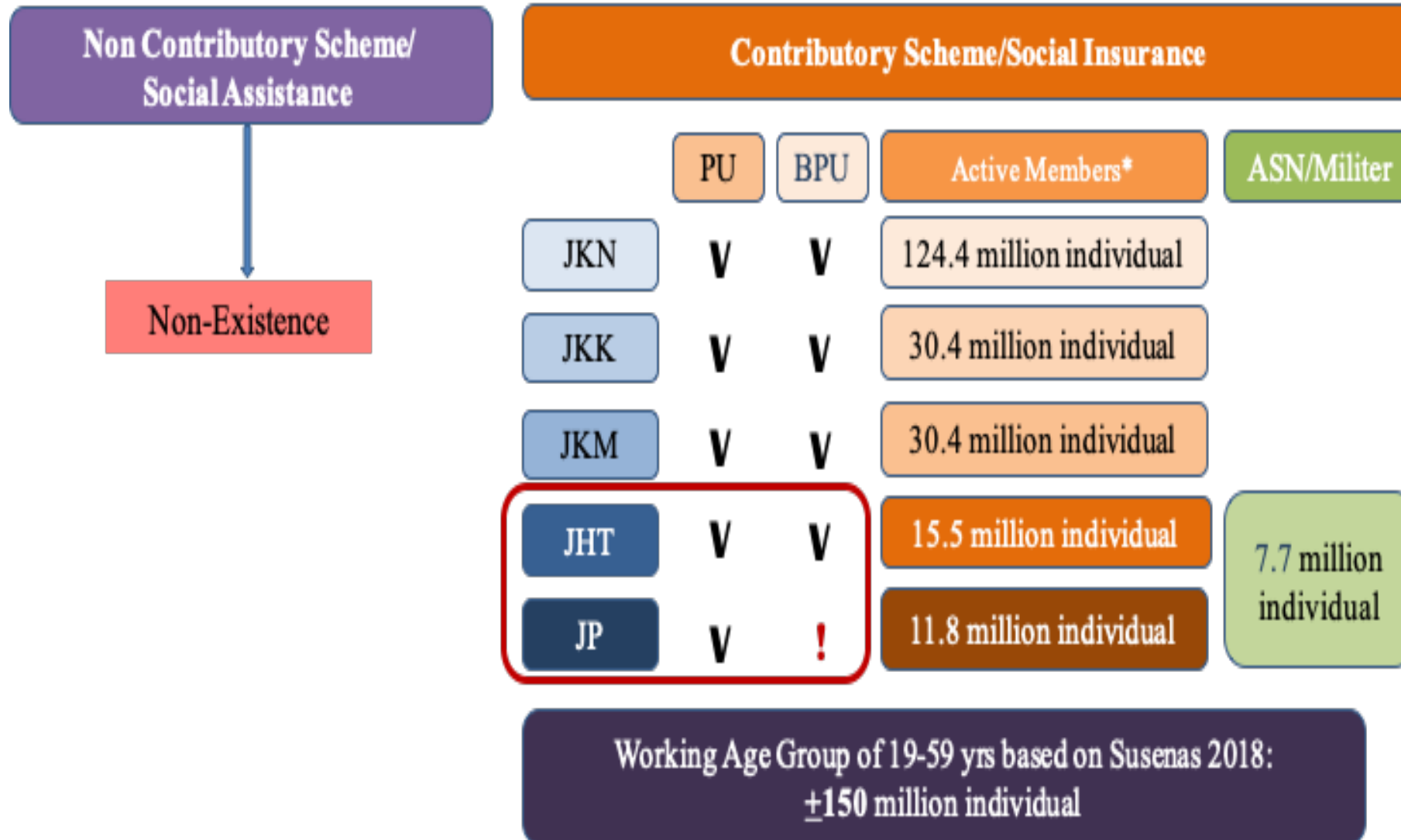
Thank You

Dyah Larasati

Email: dyah.Larasati@tnp2k.go.id

Ph.: +62-812-8118-2947

Coverage of Indonesia's Social Protection Programs across the Lifecycle (2018)



Social Protection through Contributory Scheme (Employment Insurance)

- Employment insurance is managed by the Social Security Agency for Employment (BPJS *Ketenagakerjaan*) and consists of :
 - Old Age Savings with Disability Benefit (*Jaminan Hari Tua/JHT*),
 - Survivors' Benefit (*Jaminan Kematian/JKM*),
 - Work Injury Compensation (*Jaminan Kecelakaan Kerja/JKK*)
 - Pension (*Jaminan Pensiun*), for:
 1. Wage-recipient workers/*Pekerja Penerima Upah* (PPU) and;
 2. Non-wage recipient workers/*Pekerja Bukan Penerima Upah* (BPU).
- Participation in all programs is mandatory for wage-recipient workers (PPU), mostly at the formal sectors, excluding civil servants, military personnel and the police, and voluntarily for the BPU.

An Illustration of MDC in Low- and Middle-Income Countries

- **Turkey** introduced a match of up to 25% of minimum wage in January 2013.
- **Thailand** has recently introduced a 1:2 match for the self employed which pays a lump sum.
- **India** matches 1:1 up to a low flat amount for informal sector workers.
- **China** recently introduced new rural pension which matches contributions up to a low flat amount at 30:100 and offers a non-contributory pension for elderly parents of contributors.
- **Costa Rica** since early 2000s pays 27% of the contributions for self-employed workers with less than 2x the minimum wage with lower shares as incomes rise.

Source: Robert Palacios, World Bank Pension Core Course, 2015